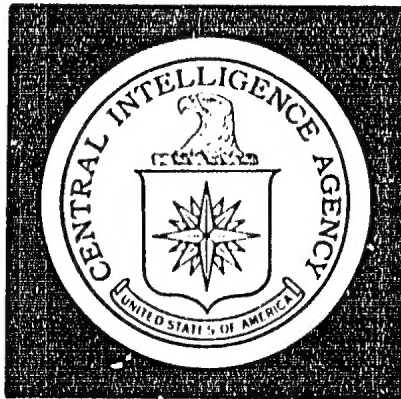


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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

Current Assessment of the Bolivian Situation

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
5 January 1970

INTELLIGENCE MEMORANDUM

Current Assessment of the Bolivian Situation

Introduction

The "revolutionary" government of President Ovando is still in its shakedown phase. Its radical and supernationalist rhetoric, characteristic from the outset, is designed to give the regime a "popular" image by appealing to the sentiments of Bolivia's highly vocal student, intellectual, and labor elements. So far this rhetoric has been transformed into concrete action only in the expropriation of the Bolivia Gulf Oil Company last October. A group of radical civilians, whom Ovando originally brought into his government, has so far set the tone of the regime, but pragmatists within the government and the military may begin to press for more moderate positions. Neither side appears ready for a showdown with the other, however. Ovando himself, a rather enigmatic figure, had seemed in recent weeks to be beginning to take the reins of government more firmly in his grasp and to be showing a more pragmatic attitude. His wildly "revolutionary" speeches during the weekend of 20-21 December--in which he called for the establishment of firing squads for "counterrevolutionaries" and expressed some sympathy for the aims of Che Guevara and his guerrillas--sounded, however, like the fulminations of an insecure man. It is too early to assess the meaning of his weekend outbursts. Our tentative assessment of the outlook for Bolivia begins on page 9.

Note: This memorandum was produced solely by CIA. It was prepared by the Office of Current Intelligence and coordinated with the Office of Economic Research, the Office of National Estimates, and the Clandestine Service.

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Background

1. The events that brought General Alfredo Ovando Candia to power in a military coup were set in motion last April with the untimely death of President Rene Barrientos. General Ovando, the commander of the Bolivian armed forces and heir apparent to Barrientos, was out of the country at the time of the President's death. Vice President Luis Adolfo Siles, therefore, was allowed to accede to the office constitutionally. Presented with this fait accompli, Ovando continued his campaign for the presidential elections scheduled for 1970 and tried to coerce Siles into actions that would assure an Ovando victory.

2. President Siles was a stronger personality than Ovando and the military had counted on, however. As Siles' popularity increased rather rapidly from its rockbottom low when he took over the office, the military became concerned that the President might influence the elections in favor of Ovando's opponent, Mayor of La Paz Armando Escobar. Further complicating matters for Ovando, charges arose in congress and the press that the US-owned Bolivian Gulf Oil Company was financing the general's campaign in return for assurances that it would be able to continue operating in Bolivia as usual. In view of General Ovando's deteriorating position, it was decided--whether by Ovando himself or by those officers close to him is not certain--that President Siles must be removed by force. On 26 September, when Siles was visiting outside the capital, the military took over the government in a bloodless coup and installed General Ovando as President.

Current Political Situation

3. President Ovando unexpectedly named several civilians to his cabinet. He filled some of the most important cabinet posts with civilians who were young, intelligent, and dynamic. Among these were Marcelo Quiroga, the Minister of Mines and Petroleum, and Alberto Bailey, the Minister of Public

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Information. Both of these men had reputations as radicals and ultranationalists and had been among Ovando's harshest political critics. Ovando apparently picked them in an attempt to bolster his sagging popularity, to give credibility to the nationalist and revolutionary image he sought in mimicking the Peruvian military government, and to put them in a situation where they could be inhibited from criticizing his policies.

4. If this is true, the strategy appears to have backfired to some extent. The leftist and nationalistic civilians have seized the initiative in the government, and so far have been relatively successful in pushing through policies that Ovando had appeared to be against. With Minister of Mines Quiroga taking the lead, these civilians have maneuvered the government in the direction they wanted it to go and have gained considerable public credit for their most popular actions, including the nationalization of the Bolivian Gulf Oil Company. During his first month in office, Ovando appeared unable to control his own government, but in recent weeks seems to have imposed some restraining influence.

5. There are divisions within both the military and the government, but the differences have not yet crystallized to the point where one group is likely to take overt action against the other. On the left are Quiroga and his government followers. This group may also include some members of the military such as commander in chief of the armed forces General Juan Jose Torres and Minister of Government Colonel Ayoroa. If a working relationship does exist among Torres, Ayoroa, and Quiroga, as has been reported, it is undoubtedly only an alliance of convenience that could break down at any time. Both General Torres and Quiroga are reported to have presidential ambitions, but apparently neither feels that his time has come as yet. Opposition to Ovando and his policies from moderates and the right wing

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is even more amorphous at the present time. Moderate elements in the military are known to dislike the Ovando government's policies and methods, but as yet there is no solid evidence that this potential opposition is organized. Civilian political opposition at this time is relatively insignificant, although Bolivian businessmen and even a large number of the peasants appear to be less than enthusiastic about the new government.

6. The policies the Ovando government has followed thus far are largely results of two primary influences. The first, a desire to consolidate its hold on power, has led it to seek the approval and support of the most vocal sector of the nation, which in Bolivia is the student, labor, and intellectual left. The second significant influence on government policy has been the strenuous effort of the radical leftist nationalists in the government, led by Quiroga, to push Ovando along the revolutionary path beyond the point of return. The expropriation of Bolivian Gulf is the primary example of the coinciding of these two influences. The move apparently came as a result of strong pressure from Quiroga and General Torres, but Ovando himself obviously saw a need for some action designed to appeal to the public and thwart criticism long enough to allow him to consolidate his position.

7. In the past few weeks President Ovando and members of his government have resorted more frequently to verbal attacks on alleged US interference in Bolivia. They have exploited news stories (very possibly concocted within the government) that accuse the CIA, Gulf, and counterrevolutionary Bolivians of collaborating in efforts to destroy the Ovando government. This tactic appears to have at least a three-fold purpose: (1) to arouse nationalistic fervor in the nation and thus to gain popular support; (2) to associate legitimate opponents of the Ovando government's policies with outside imperialist forces and thus to discredit them; (3)

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to provide a ready excuse for failures of government economic policies by attributing the failures to sabotage.

8. That Bolivia will face serious economic problems is a foregone conclusion. It is the poorest nation on the Latin American continent and requires foreign capital for development. The expropriation of the Bolivian Gulf Oil Company and the leftist nationalist posturings of the Ovando government have only assured that chronic economic and financial problems will continue and in all probability become more severe. Foreign exchange restrictions since the expropriation have temporarily cushioned devaluation pressures, but the inability to fulfill import requirements is likely to have a severe impact on price stability, employment, and economic growth. Bolivia has found it difficult to attract foreign capital under the best of circumstances, and the currently unstable political climate will further dampen investor confidence. In addition, the government's labor policies seem likely to reverse the progress made in the mining industry during the Barrientos administration when the mining of tin--by far Bolivia's most important export product--became a profit-making industry for the first time in a decade.

Bolivia vs. Gulf Oil Company

9. The expropriation of the US-owned Bolivian Gulf Oil Company was not a total surprise, although President Ovando had given private assurances to company officials and the US ambassador that all the government really wanted was a renegotiation of the contract. He did not, however, commit himself publicly, and it was apparent that Quiroga was pressing for expropriation. It is still not clear who in the government initiated the order, but on 17 October Bolivian troops occupied the offices and installations of Bolivian Gulf.

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10. While satisfying to national pride, the expropriation has been a major headache for the government.

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Since the company was taken over, however, major portions of the oil industry have been forced to shut down. Gulf immediately stopped shipping oil from the storage point in Arica, Chile, with the result that operations in the oil fields had to be stopped for lack of storage facilities. Bolivia has not yet found a market for its petroleum, although it has made offers to Brazil, Argentina, and various Communist countries.

11. Gulf has taken other measures that have been interpreted by Bolivians as retaliation and as an effort to force a reversal of the expropriation. Construction has stopped on a pipeline from southeastern Bolivian natural gas fields to Argentina because the company has embargoed the shipment of construction materials. Argentina is cooperating with Bolivia in an attempt to get the materials and financing for the pipeline construction released and will probably be successful. Gulf also requested Chile to stop the movement of certain materials from the port of Arica to Bolivia, but the Chilean Government refused. A stop-payment was also issued on some \$500,000 of Gulf checks payable in Bolivia.

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12. The government has maintained from the very first that it intends to pay compensation to the company for its expropriated property. Minister of Mines and Petroleum Quiroga has declared, however, that payment will be made only for the actual value of the property taken. This excludes any underground reserves the company may claim as well as legitimate exploration costs. Quiroga's method of computing the compensation would result, even under the most favorable evaluation, in a payment of no more than \$85 million on Gulf's claim of approximately \$140 million total investment. Finding the means to make the payment could present a real problem. The Bolivians have

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suggested they could sell oil to Gulf and then set aside a portion of the price paid, perhaps as much as 30 percent, for compensation purposes. The company thus far has rejected a solution of this sort. Mid-December talks between Gulf representatives and Bolivian Government officials have been described by the company as productive. These talks are to be renewed this month when the Gulf officials will return to Bolivia with "concrete proposals," according to the La Paz press.

Relations With US

13. The US, in one form or another, has frequently been the butt of vociferous attacks from members of the government and vocal elements of the population since the September coup. Not only have US companies come under attack, but official and semiofficial representatives of the US have been targets for the anti-US nationalism that characterizes this government. USAID supported projects have been particularly vulnerable to heavy criticism. Representatives of the American Institute for Free Labor Development (AIFLD), in Bolivia for the training of democratic labor leaders, have been declared unwelcome, and the ORIT representative has already left the country. The US military assistance group has also been subjected to criticism and may yet be asked to withdraw from the country. No other US companies have been nationalized since the Gulf expropriation, but the Matilde Mines, South American Placers, and the Bolivian Power Company are prime potential targets for future expropriations.

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14. Government-to-government relations have been characterized by seemingly frank discussions, followed almost immediately by vicious public attacks on the US and by reversals of stated Bolivian intentions. Labor Minister Rolon has gone so far as to advise the US Embassy that it should not take seriously the anti-US statements made by government officials because they are made only out of political necessity and

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are not truly representative of the government's feelings or indicative of policies it intends to pursue. Unfortunately, it appears that private statements to US officials carry no more validity than public declarations. What can be said with certainty is that the Ovando government wants continued US aid but will strive very hard to get it with minimum commitments on its own part.

Relations With the Soviet Union and Eastern Europe

15. Since taking power, President Ovando has pursued a policy of establishing diplomatic and trade relations with the Communist countries. This, however, is not a new bold venture but primarily a continuation and amplification of a process begun under President Barrientos but with a speeding up of the timetable. Diplomatic relations have been established so far with Romania and the Soviet Union. Technical teams from both countries, in addition to one from Hungary, which is already represented in La Paz by a chargé d'affaires, have visited Bolivia. By pursuing this policy of closer relations with the Communist countries, President Ovando appears to be trying to demonstrate his independence from the US in international affairs and to gain access to financial or technical assistance.

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When Julio Garret Ayllon, Bolivia's first ambassador to the USSR, departed for Moscow in late December he said that his main task will be to sell Bolivian petroleum and tin to the Soviet Union. Toward this end he stated that a former president of the Bolivian state oil company would be a member of diplomatic mission in Moscow. Moscow is still assessing the recent events in Bolivia, however, and is not likely to make any major commitments in the near future.

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Outlook

17. The likelihood that the Bolivian Government will achieve any appreciable degree of stability in the near future is slim. There are some indications that President Ovando feels more confident and secure now than he did in his first two months of office, but statements attributed to him on 20 and 21 December are those of a man who is not at all sure of his position. In a speech in Cochabamba he referred to a "plot" against his life and threatened to use a "firing squad" to enforce government "morality." He called upon peasants, students, and workers to support his government and "demanded military support for his government" according to press reports. Following the president's cue, his supporters in La Paz issued a harshly worded document that attacked Bolivians who are directed by "imperialism, CIA, and Gulf" and concluded by saying that there is no middle way--"either you are with the government and the revolution or with Gulf and the counterrevolution." All this sounds as if the ground is being laid for a witch hunt of presumed opponents of the Ovando government.

18. President Ovando has used all of the revolutionary rhetoric that is currently in vogue in Latin America but has failed, thus far, to detail any coherent plan of reforms that even resembles revolutionary changes. In a recent interview, Ovando told newsmen that his program "coincides in many points with that proposed by the 'Guevara guerrillas' including 'defense of natural resources, the struggle against imperialism, and the necessity to change structures.'" His revolution, he said, "is obviously closer to socialism than to capitalism." It is doubtful that Ovando's "revolution" will ever come close to matching his rhetoric, but Bolivia is truly in need of many far-reaching reforms. His proposed "revolutionary" attack on illiteracy through extensive use of students and the army, and his plan to reform the government structure could fill genuine needs if implemented.

19. The forces necessary to push Bolivia further to the left are present in Marcelo Quiroga and

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his followers, but conservative forces are also present, most notably in the military. Neither the left nor the right appears to be in a position to take over the government at this time, however, and it is likely that Ovando will continue in power for the time being, taking ideas from both sides but continuing to lash out verbally against the US and "counter-revolutionaries" in Bolivia. The first 3 to 6 months of 1970, when the economic pinch will begin to be felt by the general populace, will be critical for the President. The more pragmatic forces in the government and military are likely to press Ovando to take a moderate approach in dealing with the economic situation, and the pressure from the radical left will increase as well.

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